

Message Text

LIMITED OFFICIAL USE

PAGE 01 ISTANB 00492 171119Z
ACTION EUR-12

INFO OCT-01 ISO-00 EB-08 COME-00 L-03 /024 W
-----065591 171151Z /21

P R 171010Z FEB 78
FM AMCONSUL ISTANBUL
TO SECSTATE WASHDC 9669
INFO AMEMBASSY ANKARA

LIMITED OFFICIAL USE ISTANBUL 0492

E.O. 11652: N/A
TAGS: BDIS, TU
SUBJ: COMMERCIAL DISPUTE: SINGER

REF: STATE 38839

1. SUMMARY: SINGER FACES A VARIETY OF PROBLEMS RESULTING FROM CANCELLATION OF ITS INVESTMENT DECREE IN 1972 AS WELL AS OTHER DIFFICULTIES TYPICAL TO FOREIGN FIRMS OPERATING IN TURKEY. SINGER IS NOW ATTEMPTING TO REDUCE ITS EQUITY IN THE TURKISH BRANCH FROM 100 PERCENT TO 51 PERCENT, AND EVENTUALLY INTENDS TO LIQUIDATE ITS INTEREST COMPLETELY, ACCORDING TO THE LOCAL GENERAL MANAGER KEITH PAYNE.

2. ALL FOREIGN COMPANIES ENGAGED IN MANUFACTURING IN TURKEY DO SO UNDER TERMS OF COUNCIL OF MINISTERS DECREES WHICH IN GENERAL STRICTLY LIMIT THE SCOPE OF BUSINESS AND DEFINE A VARIETY OF CONDITIONS UNDER WHICH THE FOREIGN FIRM MAY OPERATE. SINGER'S DECREE WAS CANCELED IN 1972 BECAUSE THE COMPANY EXCEEDED SCOPE OF ITS DECREE BY ENGAGING IN RETAIL MARKETING OF HOUSEHOLD APPLIANCES MANUFACTURED BY PROFILO HOLDING, A LARGE TURKISH INDUSTRIAL GROUP. SINGER DID NOT CONTEST THE CHARGE, AND AGREED TO BLOCK (DEPOSIT IN CENTRAL BANK) ALL PROFITS RESULTING FROM UNAUTHORIZED ACTIVITIES. HOWEVER, A NEW DECREE WAS NOT PUBLISHED UNTIL 29 MONTHS LATER IN 1975. ALTHOUGH THE COMPANY HAS NOT BEEN

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 ISTANB 00492 171119Z

REQUESTED TO BLOCK ALL PROFITS FOR THIS 29 MONTH PERIOD, IT HAS REFRAINED FROM ATTEMPTING TO REMIT SUCH PROFITS ON THE ASSUMPTION THAT PERMISSION TO REMIT WILL BE DENIED AND THAT THE AMOUNT INVOLVED (29 MILLION TURKISH LIRA EQUAL 1.5 MILLION DOLLARS) WILL BE BLOCKED.

3. ADDITIONAL COMPLICATION RESULTS FROM GOT CHARGE THAT SINGER HAS

NOT COMPLIED WITH COMMITMENT TO IMPORT ALL CAPITAL IN KIND (MACHINERY

AND EQUIPMENT) AS SPECIFIED IN ITS DECREE. DISCREPANCY RESULTS IN LARGE PART FROM LOSSES INCURRED WHILE EQUIPMENT SAT IN CUSTOMS FOR OVER 2 YEARS IN 1972-73 BECAUSE SINGER COULD NOT CLEAR IT IN ABSENCE OF INVESTMENT DECREE. AMOUNT IN DISPUTE IS TL 7 MILLION EQUALS \$364,000.

4. GOT CONSIDERS TOTAL AMOUNT IN DISPUTE (TL 36 MILLION) "UNAUTHORIZED CAPITAL" SINCE IT CONSTITUTES A LARGE SHARE (53 PERCENT) OF SINGER'S FIXED ASSETS IN TURKEY. SINCE SINGER'S FIXED ASSETS EXCEED ITS "AUTHORIZED CAPITAL" BY THAT AMOUNT, IT HAS BEEN ALLOWED TO REMIT ONLY 47 PERCENT OF TOTAL PROFITS SINCE 1975. THE BALANCE HAS BEEN BLOCKED IN CENTRAL BANK.

5. IN 1976, SINGER NEGOTIATED WITH GOT TERMS OF A NEW DECREE WHICH WOULD REGULARIZE THE COMPANY'S POSITION BY RAISING AUTHORIZED CAPITAL BY AMOUNT IN DISPUTE. IN RETURN, SINGER AGREED TO ALLOW TURKISH INTERESTS TO INVEST IN THE COMPANY UP TO 49 PERCENT OF EQUITY, AND HAS DISCUSSED PARTNERSHIP TERMS WITH THE SABANCE AND PROFILO GROUPS. THE DECREE WAS APPROVED BY THE STATE PLANNING ORGANIZATION (SPO) AND WAS ENTERED ON THE AGENDA OF THE COUNCIL OF MINISTERS. THE SHORT-LIVED ECEVIT GOVERNMENT OF JUNE/JULY 1977, HOWEVER, REFERRED THE DECREE BACK TO THE SPO FOR "FURTHER STUDY". THE SUBSEQUENT DEMIREL COALITION REVISED THE DECREE, BUT NEW ECEVIT GOVERNMENT AGAIN SENT LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 ISTANB 00492 171119Z

IT BACK TO THE SPO IN JANUARY, 1978. IN LATEST DEVELOPMENT, SINGER RECEIVED ENCOURAGING LETTER FROM COMMERCE MINISTRY FEBRUARY 16 WHICH INDICATED THAT DECREE WOULD GO FORWARD UPON THE COMPANY'S CONFIRMATION OF ACCEPTANCE OF TERMS OF THE DRAFT DECREE.

6. OTHER DIFFICULTIES EXPERIENCED BY SINGER INCLUDE PRICE CONTROLS WHICH FORCED THE COMPANY TO OPERATE AT A LOSS THROUGHOUT MOST OF 1977, AN EXPORT COMMITMENT OF 20 PERCENT OF PRODUCTION WHICH SINGER CLAIMS CANNOT BE MET BECAUSE OF HIGH LOCAL COSTS, AND UNDER A NEW COLLECTIVE BARGAINING AGREEMENT, CONTINGENT SEVERANCE PAY LIABILITIES TOTALING ABOUT \$9 MILLION, OR OVER TWICE THE BOOK VALUE OF THE COMPANY. THE LATTER IS A PROBLEM FACED BY ALMOST ALL TURKISH ENTERPRISES, AND IS PARTICULARLY BURDENSOME BECAUSE A COMPANY MAY NOT TREAT RESERVES SET ASIDE TO MEET SUCH LIABILITY AS A TAX DEDUCTIBLE COST.

7. IN CONSIDERING LIQUIDATION OF ITS INTERESTS IN TURKEY, SINGER IS PARTICULARLY ANXIOUS TO OBTAIN NEW DECREE SINCE UPON LIQUIDATION IT MAY REMIT ONLY AUTHORIZED CAPITAL AND RETAINED EARNINGS. UNDER PRESENT CIRCUMSTANCES THE MAJORITY OF THE COMPANY'S ASSETS ARE CONSIDERED UNAUTHORIZED. THEREFORE FIRST STEP IS TO REGULARIZE

DISPUTED TL 36 MILLION UNDER TERMS OF NEW DECREE. SINCE LOCAL
MANAGER CONSIDERS SITUATION EXTREMELY DELICATE, HE REQUESTS NO
ACTION BE TAKEN BY EMBASSY OR DEPARTMENT WITHOUT PRIOR COSULTA-
TION WITH HIM.
HOUGHTON

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 17 feb 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978ISTANB00492
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780073-0879
Format: TEL
From: ISTANBUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780242/aaaabjqq.tel
Line Count: 121
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 21faa2d4-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 STATE 38839
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3564220
Secure: OPEN
Status: NATIVE
Subject: COMMERCIAL DISPUTE: SINGER
TAGS: BDIS, TU
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/21faa2d4-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014